Altra
Federal Credit Union
1700 Oak Forest Dr. • Onalaska, WI 54650
608-787-4500 • 800-755-0055 • www.altra.org

Submitted via email: regcomments@ncua.gov

May 28, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Arlington, VA 22314-3428

Re: Comment to Proposed Prompt Corrective Action: Risk Based Capital Rule
RIN 3133-AD77

Dear Mr. Poliquin:

On behalf of Altra Federal Credit Union and our 79,700 members, we welcome the opportunity to comment on the National Credit Union Administration's (NCUA's) Proposed Prompt Corrective Action: Risk Based Capital (RBC) Rule. Altra FCU is a $1 Billion Credit Union serving over 400 Select Employer Groups.

While we understand that the NCUA must take steps to ensure the safety and soundness of the nation's federally insured credit unions, and while we applaud efforts to protect the credit union system, we urge the NCUA to abandon the RBC proposal in its current form. The proposal would impose an unnecessary compliance and financial burden on Altra FCU. It would discourage mortgage lending and member business lending – services our members need and programs we rely upon to survive. It would lead to higher loan rates, lower dividend rates, and increased fees for members. Even if an RBC program were appropriate in some form, the risk-weighting system now being proposed is fundamentally flawed and far harsher than the Basel III standards for community banks.

Is this proposal necessary?

The NCUA should consider whether a system of risk-based capital reserves is even needed for federally insured credit unions, since their high net worth leverage ratio requirement already demands higher capital levels than similarly sized banks. The NCUA has failed to demonstrate the necessity of a new RBC regimen, given the historical safety and soundness of credit unions (especially obvious during the recession). The NCUA already has tools to manage interest rate risk, concentration risk, investment parameters, and other concerns. This proposal will have unintended consequences on credit unions by requiring more capital and tying their hands as they struggle to grow and serve their members?

Implementation of the RBC system, as proposed, would serve only to hamper growth and restrict credit unions' ability to compete – just the opposite of what Congress intended.

The NCUA has failed to demonstrate that the RBC proposal is necessary in its current form. The credit union system withstood the worst financial crisis in 80 years, yet this rule would require U.S. credit unions to hold more than $7 billion in additional capital. This is especially harmful to credit unions, as they cannot raise capital except from retained earnings.

Even if an RBC program were appropriate in some form, the proposed risk-weighting system is fundamentally flawed. We urge the NCUA to rescind its proposal and "go back to the drawing board." Credit unions need a system that:

- Properly captures the risks involved in their lending and investment decisions;

- Is fair and equivalent to the system imposed on community banks; and

- Allows credit unions to base decisions on safety, soundness, and member service, rather than compliance with excessive capital reserve requirements.

The risk weights would not properly capture risks

The proposal increases the risk weight for certain types of loans – including real estate loans and member business loans – based ***only*** on their concentrations in a credit union's portfolio.

For example, credit unions that have developed MBL expertise would be unfairly penalized simply because MBLs represent a relatively high concentration of their loan portfolios. Thanks to sound MBL policies, experienced staff, strong controls, and strict underwriting standards, these credit unions' MBL portfolios are actually less risky than the loans of inexperienced business lenders with few MBLs. Other metrics may be better predictors of risk, but the RBC proposal ignores them. It fails to consider whether an MBL is secured or unsecured, the lender's underwriting standards, loan-to-value ratios, collateral type, or other indicators of loan quality. Additionally, historic loan losses by individual credit unions should be included as an offset. A credit union that has never had an MBL or mortgage default should not be subject to the same loan concentration thresholds as a credit union with significant default history.

If the NCUA retains the concentration-risk focus of its risk weighting system, it should consider more reasonable concentration escalators. The proposed concentration thresholds are so low that they would force credit unions to make choices based on compliance rather than safety and soundness or member service, simply to avoid going over a concentration threshold.

Risk weights on the investment side would be based *solely* on interest rate risk – weighted average life – regardless of other metrics of investment safety. The proposal ignores variable rate investments or amortization features that mitigate interest rate risk, just as it ignores whether an investment is guaranteed. Altra FCU like other CUs has seen a growth in deposits and made the strategic decision to build a sound investment portfolio based on prudent, long-term investments. They would be unfairly penalized by this proposal, which is based on the short-sighted assumption that a rising interest-rate environment is the overriding risk. In addition, using higher risk weights on long-term assets to deal with interest-rate risk is misleading without also considering the other side of the credit union's balance sheet and factoring in liability maturities. We urge the NCUA to scrap its risk-weighting system and find a fairer, more accurate means of measuring investment risks that goes beyond maturity length.

The 250% risk-weighting being proposed for all CUSO investments is particularly troubling. CUSOs are invaluable resources for credit unions, and they should not be treated as if they were illiquid small business investments. CUSOs provide services that members need but that credit unions might not be able to provide efficiently on their own; they increase credit union profitability by contributing to increased loan production; they reduce operating expenses by allowing credit unions to pool resources; and they provide expertise and thus reduce risks. Yet the 250% risk weighting would likely precipitate CUSO failures as credit unions are forced to divest from them in order to maintain capital. At the very least, the proposal would discourage credit unions from investing in CUSOs. Is this NCUA's intention?

The risk weights would be far higher than those imposed on community banks

A number of the risk weightings, especially for MBLs and mortgage concentrations as well as for investments, are not properly calibrated for credit unions and would put them at a competitive disadvantage. In comparison to the FDIC's risk based capital for banks under Basel III, the NCUA approach is punitive and troubling.

For example, on the loan side:

• Basel III gives a 50% risk weighting to *all* 1- to 4-family mortgage loans, regardless of concentration. The NCUA's RBC proposal starts with the same 50% risk weighting, but only for non-delinquent 1st mortgage real estate loans that make up less than 25% of the assets in a credit union's portfolio. The risk weighting jumps to 75% at 25-35% of assets, and finally hits 100% for those over 35% of assets.

• Similarly for both other mortgage loans (such as second mortgages) and for MBLs, banks have a 100% risk weighting under Basel III – regardless of concentration. Credit union risk weights are up to twice as high: Member business loans (MBLs) start at a 100% risk weight, but only up to 10% of assets; after that, they jump to 150% risk weight at 15-25% concentration levels, and then to 200% at higher concentrations. This makes no sense, especially given that credit union MBL losses have averaged 50% less than those of similar sized commercial banks.

Credit unions didn't precipitate the recent financial crisis, and the losses caused by credit union failures pale in comparison to those caused by banks. So why punish credit unions by setting risk weights so far out of line with the standards imposed on banks? Applying substantially higher risk weights to credit unions than apply to community banks seems neither necessary nor reasonable.

The risk weights would unfairly hamper a credit unions' strategic planning

Credit unions should base their decisions on safety, soundness, and member service. The RBC proposal would force them to focus instead on compliance with excessive capital reserve requirements.

The proposed risk-weights would create a strong disincentive for credit unions to engage in mortgage lending, to make MBLs, to invest in CUSOs, or to hold long-term investments – all to the detriment of members. Those consequences are not justifiable. Particularly troubling, the risk weighting for MBLs would have a chilling effect on member business lending, which credit unions may need to survive. This sends a mixed message in light of the NCUA's advocacy for a higher MBL cap and in spite of how well credit unions fared compared to banks during the recession.

Moreover, to maintain adequate cushions, credit unions would look to net income – increasing interest income, reducing interest expense, rationing services, or increasing fee income – all to the detriment of members/owners. Again, is this really what the NCUA wants?

The "Individual Minimum Capital Requirement" would create too much uncertainty

Under the proposal, the NCUA would have discretion to increase a credit union's individual risk-based capital requirement, based only on an examiner's subjective determination that the credit union's capital "is or may" become inadequate, regardless of the credit union's actual RBC ratio. This would authorize the NCUA to impose capital requirements that exceed even well-capitalized levels. Doing so on a case-by-case basis would give examiners far too much discretion and create too much uncertainty for all credit unions. How could credit unions be expected to manage their portfolios and adhere to the RBC standards if examiners can "change the playing field" whenever they see fit?

In summary, Altra Federal Credit Union urges the NCUA to scrap its unnecessary RBC proposal, or at the very least to overhaul it and issue a revised proposal for comments. In its current form, the rule would create an unjustified compliance and financial burden for credit unions. It would discourage mortgage lending and member business lending – services our members need and programs many credit unions rely upon to survive. It would lead to higher loan rates, lower dividend rates, and increased fees for members. Implementing the rule as it is now written would profoundly and negatively impact not just Altra FCU, but the Credit Union movement as a whole – as well as all Credit Union members nationwide.

Thank you.

Sincerely,

Jack Peplinski

Jack Peplinski

President/CEO

Altra Federal Credit Union